Center for Social Development
GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

RESEARCH BRIEF

| MARCH 2009 | CSD PUBLICATION NO. 09-11 |

SEED Account Monitoring Research

By Lisa Reyes Mason, Yunju Nam, Margaret Clancy, Vernon Loke, and Youngmi Kim

Introduction[1]

Saving for Education, Entrepreneurship, and Downpayment (SEED) is a policy, practice, and research initiative to test the efficacy of and inform a national Child Development Account (CDA) policy in the United States. CDAs are accounts for children that provide a structured opportunity to save and accumulate assets.

In SEED, nonprofit community organizations established subsidized, matched accounts for low- and moderate-income children and youth. In general, SEED participants had three to four years to save and accumulate match dollars. Although some youth participants used their savings to purchase an asset during the initiative, in almost all cases, savings are being held for long-term use such as higher education.

SEED Account Monitoring research collected participant demographic data and tracked cash flow of SEED accounts for 1,171 children and youth participating in 10 SEED programs. Data were collected from September 2003 through December 2007.

This brief summarizes findings for the three Account Monitoring research questions:

» Who are SEED participants?

» How much was saved and accumulated in SEED accounts?

» What factors are associated with savings and accumulation in SEED?

SEED Programs

SEED community-based programs operated across the U.S. and in Puerto Rico, starting in either 2003 or 2004. Target recruitment ranged from preschool-aged children to young adults in their early 20s. The number of participants by program ranged from 67 to 81, with the exception of Oakland Livingston Human Service Agency (OLHSA), where a quasi-experimental Pre-School Demonstration and Impact Assessment had 495 participants. Total participants numbered 1,171.

SEED programs received $2,000 in initiative funds per participant, which was allocated between three types of account incentives: an initial deposit, benchmarks, and match dollars. Each program had a unique incentive structure, although the match rate was a consistent 1:1. Initial deposits ranged from $0 to $1,000, benchmark caps from $0 to $1,000, and match limits from $750 to $3,000. Some programs

[1] This Research Brief is based on Mason, L. R., Nam, Y., Clancy, M., Loke, V., & Kim, Y. (2009), *SEED account monitoring research: Participants, savings, and accumulation* (CSD Research Report 09-05). St. Louis, MO: Washington University, Center for Social Development. The complete report may be accessed at http://csd.wustl.edu/Publications/Documents/RP09-05.pdf

raised funds to provide supplemental benchmarks or match dollars to participants. Total incentive funds available to participants ranged from $2,000 to $4,000.

Who are SEED participants?

SEED participants are primarily children and youth of color in low-income families, who self-selected into 10 SEED programs. At enrollment, participants' ages ranged from one to 23 years, with a median age of five. About 40% of participants' caregivers were married, and 64% were employed. About half of participants were in families with gross income below the federal poverty guidelines, and 48% were in families receiving government assistance (TANF, SSI, or food stamps). Almost three-fourths were in families that were banked (having a checking or savings account, or both), and almost 40% were in families that owned their own homes.

How much was saved and accumulated in SEED accounts?

At December 31, 2007, 1,171 participants had accumulated almost $1.8 million. Average per-participant accumulation was $1,518 (median of $1,093).[2] On average, the initial deposit provided by SEED constituted about half of a participant's total accumulation. Regarding net savings contributed by the participant or caregiver, the average quarterly amount was $30 per participant, with a median of $7. Overall, about 57% of participants had positive net contributions to their account (i.e., deposits other than the initial deposit and benchmarks deposited directly by programs). For these participants, mean net contributions per quarter was $43, with a median of $17.

At the three programs that permitted matched withdrawals during SEED, 56 participants made 155 matched withdrawals totaling $128,195, with an average of $2,289 per participant (median of $1,683). Matched withdrawals were used for postsecondary education, vehicles, computers, housing, and medical expenses.

Seven percent of participants made unmatched withdrawals. For this group, the average amount of these withdrawals was $507 per participant (median of $250).

What factors are associated with savings and accumulation in SEED?

Based on multivariate analysis, findings from this study identify the following associations. However, it is impossible to say whether these relationships are causal.

Participant, caregiver, and family characteristics

» *Caregiver education*. Participants whose caregivers have a college degree have more savings and accumulation than those whose caregivers do not have a high school diploma.

» *Homeownership*. Homeownership is associated with higher savings and accumulation.

» *Number of children*. More children in the family is associated with less accumulation.

» *Caregiver marital and employment status*. Participants with non-married, working caregivers tend to have less savings and accumulation than those with non-married, non-working caregivers.

» *Caregiver relationship to participant*. Participants cared for by their mother or father have less savings and accumulation than those cared for by other relatives (primarily grandparents).

» *Race/ethnicity*. Asians tend to have more savings and accumulation than Whites, while Blacks and Native Americans tend to have less. Latinos or Hispanics tend to have less savings than Whites.

Many of the above findings are not unexpected. For example, we would anticipate that caregiver education and homeownership would be positively associated with savings and hence accumulation.

Turning to more complex findings, less savings and accumulation among non-married, working caregivers in comparison with non-married, non-

[2] Five of the 10 programs allowed participants to save through the end of 2008. These programs began later than the other programs in SEED.

working caregivers could possibly be explained by work-related expenses (e.g., child care and transportation) of the former.

On caregiver relationship, caregivers who can take custody of their relatives' children are likely to have advantages over the children's parents in the low-income population. For example, the homeownership rate is higher among relatives as caregivers compared with parents.

Regarding the findings for race/ethnicity, the lower savings and accumulation of Blacks and Native Americans, and lower savings of Latinos or Hispanics, may be expected given results from the American Dream Demonstration (ADD). As in ADD, the results indicate only that race is associated with savings after controlling for the variables observed in this study. Unobserved variables that are associated with race and ethnicity, if fully observed, would reduce differences to zero.

Program characteristics

» *Length of participation.* Longer-term participants, on average, have more savings and accumulation than participants with shorter terms of participation. The growth rate declines as length of participation increases.

» *Initial deposit.* The amount of the initial deposit—funds to seed the account—does not have a significant association with savings, but has a large and positive association with accumulation.

» *Benchmark cap.* An increase in the benchmark cap—the maximum amount of benchmarks that a program could deposit into a participant's account or pay outright—is not associated with savings, but is positively associated with accumulation.

» *Match limit.* An increase in match limit—the amount of savings that can be matched—is positively associated with savings, but not associated with accumulation.

For an explanation of why longer participation is associated with higher savings and accumulation, SEED participants self-selected and were to some unknown extent program-selected into SEED programs (i.e., through the organization's program design and target recruitment). It is possible that participants who enrolled in SEED earlier (and accordingly stayed longer) may be more motivated to save or are in some other way a more congenial fit with SEED. One alternative explanation is that participants learned skills needed for saving or acquired savings habits over time.

The three SEED incentives—initial deposit, benchmark cap, and match limit—appear to have distinctly different associations with savings and accumulation.

The initial deposit is placed into an account as a lump sum soon after a participant enrolls in the program. This incentive does not have an association with savings, but is positively and strongly associated with accumulation. Regarding savings, we might hope that an initial deposit would spur new saving, but findings from this study do not support this. The positive relationship between initial deposit and accumulation is expected, since initial deposits were placed directly into participants' accounts and are part of accumulation as long as participants do not make unmatched withdrawals.

Turning to benchmarks, since these incentives were periodically distributed and were often deposited into participants' own accounts, participants may not distinguish their own savings from benchmark deposits. Considering that benchmarks are relatively easy to receive (e.g., staying in the program or attending financial education) and that their benefit is typically doubled by match dollars, it is not surprising that a positive association between benchmark cap and accumulation is found.

Match limit is positively associated with savings, but not with accumulation. This finding is similar to ADD where match limit (or match cap) was found to be strongly and positively associated with net savings among savers (Schreiner & Sherraden, 2007). Match is a strong incentive to save—in SEED, match provides a 100% return on savings. A higher match limit is likely to motivate participants to save more, which explains the positive, significant association between match limit and savings in this study. At the same time, match limit has a much weaker and non-significant association with accumulation, compared to initial deposit and benchmark cap. The result for accumulation suggests difficulties in saving among participants despite the strong incentive of the match. It seems that savings motivated by a higher match limit is not large

enough to have a significant association with accumulation in SEED. Considering that depositing one's own money into a SEED account requires more effort than accumulating the initial deposit and benchmark incentives, these findings are not surprising.

In sum, findings suggest that the initial deposit and benchmarks may increase total SEED accumulation, while a higher match limit may increase savings. It may be that each incentive has a way of influencing participant motivation to save which results in discrete savings outcomes. Or, perhaps the combination of these incentives—offered in a package—affects outcomes for a specific incentive. Little is known about such potential interactions at this stage.

Conclusions

SEED Account Monitoring is the first large and detailed study of savings in a Child Development Account program in the United States. This study can tell us something about overall savings and accumulation in SEED, and about associations of individual and program factors with savings outcomes.

The $1,518 that each SEED participant has on average as an investment for the future is not a trivial amount. It would cover over 60% of tuition and fees for one year at a typical community college in 2008-2009 (College Board, 2008). While a mean net quarterly savings of $30 might be considered modest, it indicates that some families can and will save in Child Development Account programs such as the one studied. About 57% of participants had positive net contributions of their own funds. For these participants, average net contributions were $43 per quarter.

Analyses show that few individual factors are associated with savings outcomes (or associated in unexpected ways) and that different program incentives may have different effects on savings and accumulation. This information is relevant to policy design. It may be that associations with program factors reflect the role of institutional features, such as incentives, in saving for children. In addition, it may be that institutional features such as restrictions (i.e., account structures in SEED that discouraged unmatched withdrawals) play a different role in saving for children than saving for adults. More research is needed to examine how the institutional theory of saving applies to saving for children compared to adults.

Overall, total accumulation in SEED is not insignificant, and most participants saved some of their own funds in SEED accounts although amounts were modest. Some participants saved more than others, which may be due to a combination of some individual and program factors, both observed and unobserved in this study. Of note, accumulation in SEED is stable, with only a small percentage of participants making unmatched withdrawals. Given that over 40% of accounts (those at OLHSA) were established as 529 college savings plan accounts, it may be that the design of the 529 helped minimize unmatched withdrawals.[3] This may have important policy implications and warrants further study.

SEED Account Monitoring data are informative and useful, but results cannot inform all policy questions—especially impacts and costs—and therefore should not be over interpreted. This study should be considered in conjunction with other SEED research, such as the Pre-School Demonstration and Impact Assessment at OLHSA, and in-depth interviews with youth and parents, and the parent survey conducted at multiple SEED sites. Later, the SEED for Oklahoma Kids experiment will provide additional results. Taken together, these studies constitute a comprehensive, and we hope informative, program of research. In SEED and beyond, the knowledge base to inform Child Development Accounts is underway, but still nascent. We will be learning much more as we move forward with SEED and related research.

[3] The 529 savings are not as easily accessible as a bank savings, the account used for other SEED programs. Unlike other SEED accounts, college savings plan assets are subject to a 10% penalty on the earnings portion of withdrawals made for any reason other than qualified higher education expenses. At OLHSA, the caregiver was the sole owner of the account and could withdraw the SEED initial deposit and any additional deposits from the Michigan Education Savings Program. Other SEED programs typically required participants to contact program staff in order to make withdrawals for emergency or other non-matched purposes.

References

College Board. (2008). *Trends in college pricing*. Washington, DC: Author.

Schreiner, M., & Sherraden, M. (2007). *Can the poor save? Saving and asset building in Individual Development Accounts*. New Brunswick, NJ: Transaction.

Authors

Margaret Clancy, Policy Director
mclancy@wustl.edu

Youngmi Kim, Research Associate
ykim@gwbmail.wustl.edu

Vernon Loke, Research Associate
vloke@wustl.edu

Lisa Reyes Mason, Research Associate
lmason@wustl.edu

Yunju Nam, Associate Professor
ynam@wustl.edu

Contact Us

Margaret Clancy
mclancy@wustl.edu
(314) 935-8178

Center for Social Development
George Warrern Brown School of Social Work
Washington University in St. Louis
Campus Box 1196
One Brookings Drive
St. Louis, MO 63130

csd.wustl.edu

Washington University in St. Louis
George Warren Brown School of Social Work

CENTER FOR SOCIAL DEVELOPMENT
George Warren Brown School of Social Work
Campus Box 1196
One Brookings Drive
St. Louis, Missouri 63130-4899